

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 SAJ-01 TRSE-00 AID-05 CIAE-00

COME-00 EB-04 FRB-01 INR-05 NSAE-00 RSC-01 XMB-02

OPIC-06 SP-02 CIEP-01 LAB-01 SIL-01 OMB-01 AGR-05

NSC-05 SS-15 STR-01 CEA-01 L-01 H-01 PRS-01 PA-01

USIA-06 DRC-01 FEAE-00 INT-05 SWF-01 /094 W

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R 161324Z OCT 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4792

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: PRIME MINISTER WILSON PROMISES HARD TIMES AND
EMPHASIZES IMPORTANCE OF SOCIAL COMPACT

REF: LONDON 13403

SUMMARY: IN A POST-ELECTION TELEVISION ADDRESS TO THE NA-
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TION, NEWLY REELECTED PRIME MINISTER HAROLD WILSON WARNED

THE BRITISH THAT LIVING STANDARDS WOULD SHOW NO INCREASE FOR THE NEXT TWO YEARS AND EMPHASIZED THAT THE "SOCIAL COMPACT" MUST BE OBSERVED BY ALL SIDES TO REDUCE INFLATION AND PRESERVE THE UK'S PRECARIOUS EXTERNAL POSITION. WILSON'S TONE WAS CONCILIATORY TOWARDS INDUSTRY, AND HE TOOK UP THE CALL FOR NATIONAL UNITY IN THE ECONOMIC CRISIS WHICH HIS OPPONENT, EDWARD HEATH, HAD RAISED AS A MAIN PART OF THE CONSERVATIVE ELECTION PROGRAM. END SUMMARY.

1. PRIME MINISTER WILSON DREW A GRIM PICTURE OF THE IMMEDIATE ECONOMIC FUTURE IN A TV ADDRESS MONDAY NIGHT AND EMPHASIZED THE OVERRIDING NECESSITY OF WAGE RESTRAINT IN THE NEXT TWO YEARS. WILSON SAID THAT THE UK COULD LOOK FORWARD TO NO INCREASE IN THE STANDARD OF LIVING OVER THAT TIME SPAN. HE DID NOT MENTION A POSSIBLE FALL IN THE STANDARD OF LIVING AS HE DID AT THE TRADES UNION CONGRESS (TUC) ANNUAL MEETING IN SEPTEMBER. WILSON STRESSED THE VITAL IMPORTANCE OF ELIMINATING THE NON-OIL TRADE DEFICIT; THIS MUST BE THE PRIMARY TASK OF THE NEW GOVERNMENT.

2. THE PRIME MINISTER RETURNED AGAIN AND AGAIN IN HIS ADDRESS TO THE SOCIAL COMPACT (I.E., WAGE RESTRAINT). BOTH IN CONJUNCTION WITH INCREASING EXPORTS AND IMPROVING THE TRADE BALANCE AS WELL AS IN THE CONTEXT OF DOMESTIC INFLATION, HE EMPHASIZED THAT THE SOCIAL COMPACT MUST BE HONORED "IN LETTER" AS WELL AS IN SPIRIT. THE U.K. CANNOT AFFORD, HE SAID, "THE BIG BATTALION PHILOSOPHY WITH POWER GROUPS, WHOEVER THEY ARE, TRYING TO SEIZE MORE THAN THEIR SHARE OF WHAT IS AVAILABLE."

DOUBTEDLY IN MIND, WILSON STATED THAT THE NEW LABOUR GOVERNMENT WOULD FULFILL THE PLEDGES OF ITS ELECTION MANIFESTO. HE PROMISED THAT THE LESS WELL-OFF WOULD BE CUSHIONED FROM THE ECONOMIC SHOCKS OF THE NEXT FEW YEARS AT THE EXPENSE OF THE REST OF THE NATION. HE ALSO STATED THAT LABOUR IS PLEDGED TO EXTEND PUBLIC OWNERSHIP IN CERTAIN SECTORS. BUT THE PRIME MINISTER STRESSED THAT THIS WAS A LIMITED PLEDGE AND THAT THE LABOUR GOVERNMENT WANTS A STRONG PRIVATE SECTOR IN A MIXED ECONOMY. WILSON

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ANNOUNCED THAT HE WOULD MEET WITH THE TUC AND CONFEDERATION OF BRITISH INDUSTRY (CBI) ON OCTOBER 15, AND HE PROMISED FULL CONSULTATIONS WITH ALL INTERESTED PARTIES ON LABOUR'S ECONOMIC PROGRAM.

4. HEAVY UNEMPLOYMENT AS A MEANS OF COMBATting INFLATION WAS RULED OUT. WILSON RECOGNIZED INDUSTRY'S CURRENT AND PROSPECTIVE FINANCIAL PROBLEMS AND HINTED THAT THE PRICE

CODE MIGHT BE LIBERALIZED. HE ALSO SPOKE OUT AGAINST ATTEMPTS BY THE NATIONS OF THE INDUSTRIAL WORLD TO CUT IMPORTS, SAYING THIS SORT OF ACTION WOULD BRING ON AN ECONOMIC SLUMP UNRIVALED SINCE THE 1930S.

5. COMMENT. NOT SURPRISINGLY AT THIS JUNCTURE, WITH THE ECONOMIC CRISIS AHEAD DEEPENING AND THE ELECTION WON, WILSON HAS INITIATED A TWO-TRACK ATTACK ON THE PROBLEMS HE FACES. ON ONE HAND HE HAS TAKEN UP THE NATIONAL UNITY THEME FROM CONSERVATIVE LEADER HEATH. AS A PART OF THIS THEME, HE STRESSED CONCILIATION WITH THE PRIVATE SECTOR AND A MODERATE, REASONABLE APPROACH ON ECONOMIC POLICY.

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6. ON THE OTHER HAND, WILSON IS BEARING DOWN ON THE UNIONS. HIS EMPHASIS ON THE VITAL NECESSITY OF SUCCESS OF THE SOCIAL COMPACT APPEARS TO US TO BE STRONGLY IMPLYING THAT IF THE UNIONS DO NOT OBSERVE IT, THE GOVERNMENT WILL BE SOON FORCED TO RESTRAIN WAGES THROUGH LEGISLATION. IN OTHER WORDS, HE IS ALREADY LAYING THE FOUNDATION FOR STATUTORY WAGE CONTROLS.

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7. IT IS INTERESTING TO NOTE THAT WILSON DID NOT MENTION THAT LIVING STANDARDS MIGHT FALL OVER THE NEXT TWO YEARS, AS HE DID AT THE TUC ANNUAL CONFERENCE IN SEPTEMBER. THIS OMISSION MAY REFLECT THE DISPUTE OVER INTERPRETATION OF THE UNWRITTEN SOCIAL COMPACT. THE TUC INTERPRETS THE COMPACT AS MEANING THAT REAL WAGES WILL BE MAINTAINED AT PRESENT LEVELS, AT A MINIMUM AND HAS SAID SO IN ITS NEGOTIATING GUIDELINES. HOWEVER, UK TREASURY (THE PRIMARY GOVERNMENT AGENCY ON ECONOMIC POLICY) HAS ALWAYS INTERPRETED THE SOCIAL COMPACT AS A CALLING FOR NO INCREASE IN GROSS WAGES BEYOND THE INCREASE IN THE COST OF LIVING OVER AN ANNUAL CYCLE. THIS WOULD IMPLY AN ACTUAL REDUCTION IN REAL WAGES (I.E., THE STANDARD OF LIVING) IN GENERAL BECAUSE OF FISCAL DRAG. THE TUC REJECTS THIS INTERPRETATION.

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